

What Will Change in the New Yellow Book?

**AICPA National Governmental
Accounting & Auditing Update Conference**

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What is Proposed in the Yellow Book Exposure Draft?

- **Define the types of audits and services and the applicable standards**
 - **Consistent application of GAGAS where applicable**
 - **Additions or deletions to strengthen and streamline**
 - **Changes to improve understanding**
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Types of Government Audits

- **Financial Audits**
 - **Attestation Engagements**
 - **Performance Audits**
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Financial Audits

- **What are financial audits?**
 - **Any audit covered under GAAS**
 - **Financial statement audits**
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Attestation Engagements

- Internal control
- Compliance
- MD&A presentation
- Allowability and reasonableness of proposed contract amounts
- Final contract cost
- Reliability of performance measures

Performance Audits

- Independent assessment of performance and management of entity, program, service, or activity against objective criteria
- Objectives include
 - program effectiveness and results
 - economy and efficiency
 - internal control
 - compliance

Changes for Consistency

- **Financial audits**
- **Attestation engagements**
- **Performance audits**

Changes in Requirements

- General standards
- Field Work standards
- Reporting standards

Changes to General Standards

- **Professional judgment**
- **Competency**
- **Quality Control and Assurance**

Changes to Field Work Standards

- **Audit documentation**

Changes to Reporting Standards

- **Privileged & Confidential Information**
- **Form**
- **Report Contents**
- **Report Quality**

Privileged & Confidential Information

- Permit auditor judgment to exclude reporting certain information
 - Deletes requirement to obtain assurance that a valid requirement exists for excluding certain information
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Form

- **Changes requirement from requiring written reports to requiring reports**

Report Contents

- Requires reporting whether the results from a sample can be projected
- Requires auditors develop the elements of a finding
- Changes requirement to allow oral comments to be equally acceptable as written comments
- Deletes the requirement to refer significant issues needing further study

Report Quality

- **Moved timeliness standard to recognize as one element of report quality**
- **Deletes the requirement to report noteworthy accomplishments**
 - **Included as guidance under the Product Quality Standard-Objective**

Changes for Understanding

- **New chapter on attestation engagements**

What Will the New Chapter Require?

- **Additional field work standards**
 - **Auditor communication**
 - **Consider the results of previous audits and attestation engagements**
 - **Audit documentation**
 - **Internal control**
 - **Fraud, illegal acts and other noncompliance**

What Will the New Chapter Require?

- **Additional reporting standards**
 - **Reporting compliance with GAGAS**
 - **Reporting on internal control and on fraud**
 - **Views of responsible officials**
 - **Privileged and confidential information**
 - **Report issuance and distribution**

Who Commented?

- 65 letters received from all levels of government and other organizations
 - 12 from federal auditors
 - 15 from state auditors
 - 6 from local auditors
 - 2 from international auditors
 - 5 from program managers
 - 9 from CPAs and CPA firms
 - 11 from professional organizations
 - 5 from other interested parties

Major Points Raised in Comment Letters

- The line between audit and nonaudit services
 - Collective technical knowledge
 - External quality control review
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Major Points Raised in Comment Letters (cont.)

- Follow-up
 - Documentation requirements
 - Agency comments
 - Reporting without GAGAS reference
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Major Points Raised in Comment Letters (cont.)

- Attest Standards in general
 - Additional field work relating to internal control and compliance for examination level work
 - Agreed-upon procedures
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Major Points Raised in Comment Letters (cont.)

- Small audit organizations
 - Form of reporting
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What's Next?

- **Analysis of comment letters**
 - **November Council meeting**
 - **To issue early 2003**
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For more information

- **Visit web site for highlights and products**
 - **www.gao.gov/govaud/ybk01.htm**
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